TURKEY: Turkish Naval Industry



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SUMMARY

It is critically important for Turkey to maintain sea border security against various types of threats and it is the mission of the Turkish Navy to contribute to Turkish defense policy by developing and maintaining a modern naval force in Turkey and abroad. Throughout the Cold War, it was the role of the Turkish Navy to protect the interests of Turkey and its allies. In the current international political environment, the Turkish Navy has taken on additional roles regarding homeland security and cooperation with neighboring countries and must increase its capabilities by adopting available technologies and modern platforms.

In order to build a strong and modern navy to protect against possible threats, new projects are being launched by the Turkish Undersecretariat of Defense Industries (SSM). These modernization projects for the Turkish Navy are structured around the concepts of C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), waterside operations, deployment and mobility, operations against terrorism, support operations, and submarine projects.

The Defense Budget and Market Size

The FY 2008 Turkish Ministry of Defense (MOD) budget reached 13.3 billion YTL, constituting 6.46% of the national budget. This figure does not include spending by either the Ministry of Interior's Gendarme or the Undersecretariat for Defense Industry's procurements. 6.9 billion YTL of the total MOD budget has been allocated to procurement of equipment and services. In 2007 the total share of MOD in the national budget was 6.3%.

The Ministry of National Defense oversees all military procurement, .The Undersecretariat of Defense Industries (SSM) is in charge of all new procurement of the Turkish Armed Forces, excluding logistics related procurement and other small sized projects.

Turkey is aiming to improve its manufacturing capabilities and to develop a national defense industry in order to become more self-sufficient. To reach this goal, Turkey seeks to maximize local manufacturing capabilities through R&D, technology transfer, and offsets.

The anticipated value of Turkish defense acquisitions in 2008 is several billion USD and a number of projects are in the pipeline. Within the scope of the Turkish Armed Forces' ten-year procurement plan, eight new projects were launched under the responsibility of the SSM. The objective is to utilize local industrial capabilities to the maximum extent possible.

A. MARKET OVERVIEW

SSM Naval Projects

The SSM is in charge of conducting feasibility studies, developing project models, preparing and issuing RFPs, evaluating proposals, carrying out contract negotiations and executing project management activities in order to meet Turkey's naval ship, boat and submarine requirements. While carrying out these

duties, the SSM aims to develop a national shipbuilding industry and related sub-industries, utilizing local capabilities to the maximum extent possible. The SSM envisions that Turkey will be a future exporter of naval platforms.

Turkey's Key Naval Programs

The SSM groups ongoing naval projects into the following four categories:

1) Amphibious Ship Group

a) Landing Ship Tank Project

Within the scope of this project 2 landing ship tanks will be procured to meet the operational requirements of the Turkish Navy. The tender was announced on May 12, 2008 and the RFP document can be obtained from the SSM until November 7, 2008.

b) Landing Platform Dock (LPD) Project

The LPD project entails the acquisition of 1 landing platform dock along with 4 landing craft mechanics, 27 amphibious assault vehicles, 2 landing craft personnel vehicles, 1 commander boat and 1 rubber hull inflated boat. RFI responses were collected on August 2007 from the following companies:

- Aeronautical & General Instruments Ltd. U.K. (through its representative DORMAK Ltd.Şti.)
- 2. ADMARIN Denizcilik Sanayi ve Ticaret Ltd.Şti. Turkey
- 3. ASELSAN A.Ş. Turkey
- 4. CNIM Constructions Industrielles De La Mediterranaee France
- 5. Çelik Tekne San.ve Tic. A.Ş. ThyssenKrupp Marin Sistem Gemi Sanayi ve Ticaret A.Ş. Turkey
- 6. DCNS Group France
- 7. DML Devonport Royal Dockyard Ltd. U.K.
- Downey Engineering Corporation U.S.A.
- 9. EADS Deutschland GmbH Germany
- Fincantieri Cantieri Navali Italiani S.p.A. (Representative -PEM Mühendislik Ltd.Şti.) -Italy
- 11. FNSS Savunma Sistemleri A.Ş. Turkey
- 12. Galileo Avionica S.p.A. (Representative -PEM Mühendislik Ltd.Şti.) Italy
- 13. HAVELSAN A.Ş.-Turkey
- Hanjin Heavy Industries & Construction Co.Ltd. Daewoo International Corporation South Korea
- 15. Lockheed Martin U.S.A.
- 16. MERWEDE Shipyard Nieuwbouw B.V. (Representative YALTEM A.Ş.) Netherlands
- 17. METEKSAN Savunma Sanayii A.Ş. Turkey
- 18. MİLSOFT A.Ş.-Turkey

- 19. NAVANTIA S.A. Spain
- 20. Northrop Grumman Corporation Electronic Systems U.K.
- 21. Oerlikon Contraves AG (Representative -Oerlikon Contraves Ankara) Switzerland
- 22. Oto Melara (Representative Makina Optik) Italy
- 23. Rafael Armament Development Authority Ltd. Israel
- 24. RMK Marine Gemi Yapım Sanayii ve Deniz Taşımacılığı İşletmesi A.Ş.-Turkey
- 25. SELEX Komünikasyon A.Ş.-Turkey
- 26. STM Savunma Teknolojileri Mühendislik ve Ticaret A.Ş. Turkey
- 27. Thales Nederland B.V. (Representative YALTES A.Ş.) Netherlands
- 28. ThyssenKrupp Marine Systems -Surface Vessel Division Germany
- 29. Türk Loydu Vakfı İktisadi İşletmesi Turkey
- 30. Ultra Electronics Limited (Representative SAVCO) U.K.
- 31. VESTEL Savunma Sanayi A.Ş. Turkey

The project model is still being discussed as it entails the construction of a single platform, which does not allow the main contractor to benefit from economies of scale, thereby reducing feasibility. The SSM held discussions with local companies to discuss possible project models and feasible solutions. The SSM also organizes sight visits to the facilities of overseas companies to get familiar with their processes and production activities.

SSM officials believe that cooperation with U.S. companies is possible at various levels, including the production of subunits, frigates and general platforms.

c) Landing Craft Tank Project

This project's objective is the acquisition of 8 landing craft tanks, which will meet the operational requirements of the Turkish Navy. Production will take place at private national shipyards and Golcuk Military Shipyard.

2) Boat Group

Projects in this group would meet the operational requirements of various organizations, such as Turkey's Coast Guard, Navy, Undersecretariat of Customs, and Ministry of Health.

a) 90-Ton Coast Guard Boat

Within the scope of this project 22 90-ton coast guard boats will be procured locally.. The prime contractor of the project is Yonca-Onuk Joint Venture. 19 boats have already been delivered and 3 boats are still under construction.

b) <u>Diver Training Boats</u>

The purpose of this project is to acquire boats that will be utilized by the Turkish Navy to train divers. The RFP document is expected to be released in the coming months. The boats will be feature steel construction and local capabilities will be utilized in their construction.

c) Enhanced Fast Patrol Boats for the Coast Guard

Yonca Onuk Joint Venture is the main contractor for this project, which entails the development of a 20-meter, enhanced fast patrol boat prototype that will be utilized by the Turkish Coast Guard.

d) Enhanced Fast Patrol Boats for the Navy

The goal of this project is to procure 2 high-speed boats to meet the requirements of the Turkish Navy through local production. This contract was signed with Yonca-Onuk Joint Venture on March 2, 2007.

e) Fast Patrol Boats for Turkish Customs

Yonca Onuk Joint Venture is the main contractor for this project, which entails the construction of 7 high-speed boats to be utilized by Turkish Customs. Four boats have already been delivered. The remaining two boats are currently under construction.

f) Modernization of SAR-35 Type Boats

The propulsion system of the SAR-35 type boats will be upgraded using a local production model. Contract negotiations are underway with Istanbul Denizcilik Gemi Insa San. ve Tic AS, which was the winning bidder.

g) Fast Patrol Boats for Health Control

The objective is to procure 4 health control service boats to be used by the Ministry of Health. The first 3 boats have already been delivered by Yonca Onuk. Delivery of the fourth boat is expected shortly.

h) Special Forces Boats

Within the scope of the project, 4 high-speed boats with special maneuver capability will be developed through local production. The following companies acquired the RFP document on April 13, 2007:

- Düzgit Gemi İnşa San. A.Ş.
- Istanbul Denizcilik Gemi İnsa San. ve Tic. A.S.
- LABRANDA Denizcilik ve Kompozit Malzemeler Üretim ve Tic. A.S.
- METEKSAN Savunma San. A.Ş.
- NAVALIS Gemi Tasarım Müh. İmalat ve Den. San. ve Tic. Ltd. Şti.
- Yonca Onuk Adi Ortaklığı

3) Auxiliary Ship Group

a) Submarine Rescue Mother Ship (MOSHIP)

1 submarine rescue mother ship will be procured to meet the operational requirements of the Turkish Navy. Production will take place at private shipyards through maximum utilization of local capabilities. A total of 24 companies responded to the RFI dated July 25, 2006. The RFP document was released on May 12, 2008, and the SSM's final decision has not yet been announced.

b) Rescue and Towing Ship

This project entails the local production of 2 rescue and towing ships to be utilized by the Turkish Navy. The RFP document for the project was released on May 12, 2008.

c) Mine Hunting Vessels

This project calls for the construction of 6 mine hunting vessels (together with onboard and shore-based spares) and the acquisition of a shore-based simulator through co-production with the German Mine Hunter Consortium. The first vessel was constructed in Germany. The second vessel was delivered in January 2007 and provisional acceptance of the third and fourth vessels was also realized in 2007. The fifth and sixth vessels are currently under construction at Istanbul Shipyard Command. Within the scope of the project a technology transfer and offset agreement was signed to develop local capabilities in this particular field. The targeted local content for the project is 20%.

d) New Type Patrol Boat

Within the scope of the New Type Patrol Boat project, 16 boats will be procured to meet the operational requirements of the Turkish Navy. Dearsan Gemi Insa San. A.S., the main contractor for the project, signed a contract with the SSM on August 23, 2007.

4) Warship Group

a) MILGEM Patrol and ASW Ship Project

The goal of this project is to produce this ship through local design and construction to the maximum extent possible. Ships constructed within the scope of this program will be designed to meet the requirements of a complex combat system that integrates all weapon and sensor systems into a centralized command and control system. A prototype ship is being constructed at Istanbul Naval Shipyard. This will be followed by the construction of 7 (+ 4 optional) ships at national shipyards.

The form, design, classification and combat electronic systems of the ship will be developed locally and the main propulsion system will be subject to direct procurement. The main contractors are grouped according to the types of activities they will perform within the project framework:

- Turkish Research Institution (TUBITAK): R&D activities,
- Istanbul Technical University: Hull appendages, form optimization and model trials,
- Turkish Loyd: classification services,
- Havelsan Aselsan: warfare systems
- STM: Design and Ship Construction and Outfitting Materials and Services
- MTU: Main Propulsion System
- b) Coast Guard Search and Rescue Ship

The objective of this project is to construct 4 search and rescue ships in private Turkish shipyards for the Turkish Coast Guard. RMK Marine, the prime contractor of the CGSRS project hopes to finalize delivery of the first ship by 2011 and of the 3 remaining ships by 2012.

Within the scope of the project important components, like software for command and control systems, electro optical director, communication systems, etc., will be designed and developed locally. Fincantieri (Italy), Milsoft and Aselsan are acting as subcontractors to RMK Marine.

c) New Type Submarine Project

6 new type submarines with air independent propulsion will be constructed at Golcuk Naval Shipyard using a co-production model with maximum local content. The RFP was released on December 28, 2006, and proposals were submitted to the SSM on November 12, 2007. The following companies purchased the RFP document and submitted a bid for the project: Armaris (France), HDW/MFI (Germany), Navantia (Spain). At the Defense Industry Executive Committee meeting on July 22, 2008, it was announced that contract negotiations would start with HDW/MFI and Marine Force International. Within the scope of the project the production of approximately 20 systems and subsystems to be integrated into the submarines will be carried out by national industry.

Turkish Naval Industry

Historically, Turkish companies would engage in civilian ship building projects aimed mainly at international markets. Following SSM's push to develop Turkey's national defense capabilities, these companies are now considering projects in various defense-related industries. They have taken part in a number of Turkish Navy projects as main or subcontractors. The requirement for national content in naval projects creates many job opportunities for Turkish engineers and blue-collar workers.

Yonca Onuk Joint Venture: Yonca-Onuk JV is situated in Tuzla-Istanbul. It has the capacity to build high-speed, advanced composite, boats up to 55m in length and 400 tons displacement and has built pleasure, commercial and naval craft since 1989. Production is in full compliance with AQAP - 2120 Quality Assurance System, with engineering and production according to Det Norske Veritas (DNV) classification rules and naval standards.

Existing Projects: Yonca-Onuk Joint Venture is the builder of the "Kaan15" class ONUK MRTP15® Fast Intervention Craft, ONUK MRTP16® Fast Intervention Craft, "Kaan29" class 90 ton ONUK MRTP29® Fast Patrol Boats, "Kaan20" class ONUK MRTP20® Improved Fast Intervention Craft and 'Kaan33' class ONUK MRTP33® Fast Patrol/Attack Craft for the Turkish Coast Guard.

RMK: RMK Marine was established in 1974 in Halic and builds boats made of steel, aluminum and GRP. The company has established a robust reputation for building luxury motor yachts. In 1984, RMK Marine was moved to Tuzla Bay, on the Marmara Sea, 45 km. away from the city centre of Istanbul. In June 1997, RMK Marine started operating under the Koc Holdings umbrella.

RMK Marine is a provider of turn-key solutions in design, construction, project management, maintenance, refit and repair of Super Yachts, Military and Merchant Ships. The RMK shipyard has one of the longest slipways in the district of Tuzla and builds ships that have a capacity of up to 30,000 DWT. RMK Marine has the ability to build and launch many vessels with different tonnages at one time. The company generally exports its products. Its main customers are Norway, Switzerland, Denmark, Holland, England, the United States of America, France, Spain and Italy.

<u>Dearsan:</u> Dearsan Shipyard was established in 1980 to build various types of sea vessels. The company is capable of building Aquila Tug Boats and Chemical Tankers up to 11.500 DWT. Furthermore, Dearsan is the main contractor for the 16 New Type Patrol Boat Project whose tender was announced by the SSM to meet the requirements of Turkish Naval Forces Command. In addition to ship building operations, the shipyard has a commercial ship design department and a combat systems design division for naval projects. The design work of the new type patrol boats has been done in-house.

<u>Duzgit Group</u>: Düzgit Group is one of the oldest companies operating in the Turkish maritime sector. Düzgit engages in a variety of activities like ship & boat building, ship owning, acting as a shipping agency for duty free & bondstore areas, selling marine lubricants and providing insurance services

Duzgit's past projects include building of commercial chemical tankers of sizes 3.000-30.000 DWT, as well as the following tender/contract projects:

- 8x 26m LOA Naval Academy Training Boats (Steel Hull & Aluminum Superstructure) for Turkish Navy/Ministry of Defense (1998-2000)
- 2x 20m LOA Harbor Patrol Boats (Aluminum Hull & Superstructure, 36 knots speed) for Syrian Arab Republic, General Directorate of Ports (2008)
- 5x 1800 passenger capacity Intercity Passenger Ferries for the local municipality of Istanbul with electrodiesel propulsion system and two azimuths drive (2008-2009).

B. MARKET ACCESS

Ministry of National Defense Procurement

All procurements for the Turkish Armed Forces are carried out according to certain rules and legislation, and within a transparent system in which relevant and authorized institutions and organizations participate. The bases of all procurement activities are the Public Tender Law No. 4734 and the Public Tender Contracts Law No. 4735, which came into effect on January 1st, 2003. There are certain defense procurements that SSM carries our according to its Foundation Law No.3238. These procurements are among the exceptions listed in Law No.4734, paragraph 3/b, and are carried out according to the principles set out in the decree of the Council of Ministers published in the Official Gazette on March 15, 2003.

To carry out military procurements, the Ministry has created tender commissions within every organization that has procurement authority. Each commission includes two military officers, a non-commissioned officer, a civil servant, and a representative from the Ministry of Finance. The procurement system does not allow for any single individual or small groups to use their own initiatives at any stage in the procurement process. Nevertheless, necessary precautions are taken at all stages of the procurement process and legal procedures are in place to prevent any malpractice. In addition, because all contracts are subject to visa and registration procedures, they also fall under the control of the Ministry of Finance and the Government Accounting Bureau.

As for major projects project offices or project management groups established by the Undersecretariat of Defense Industries (SSM), upon the decree of the Defense Industries Execution Committee, SSM is charged with executing these projects. Experts from the TAF also have a role in these project offices of groups, which again comprise officers, NCOs and civil experts under the command of a manager holding the rank of general or admiral. These project managers are responsible for providing the relevant force commanders and Defense Industry Execution Committee members with information regarding the implementation of the project. Well-established reporting and control mechanisms ensure that all activities carried out within the project management process are subject to the control of all responsible and authorized organizations.

Offset Requirements

The SSM has recently revised its Industrial Participation/ Offset Directive (IP/O) to utilize the production potential and capabilities of the local defense industry and to increase Turkish defense exports. According to the new directive, offset activities will be evaluated within 3 categories:

Category A: Local content (including all activities conducted by Turkish industry within the scope of

the procurement agreement).

Category B: 1) Export of defense, aeronautics and aerospace goods and services.

2) Export of goods and services related to the procurement agreement.

Category C: 1) Technological cooperation,

2) New and/or expanded investment,

3) R&D activities,

The offset requirements cover defense, aeronautics, aerospace related fields and/or activities that require high technological capabilities. In case of technology transfers, local companies have export requirements, equal to the net value of the transferred technology. Unless Turkish companies fulfill this requirement, contractors will not be credited for the IP/O. Moreover, civilian exports will also not be credited for the IP/O and cannot be deducted from the offset` obligation.

The IP/O requirement committed by the contractor will be at least 50% of the procurement agreement, having a minimum value of **10 million USD**. The procurement agreement value and the IP/O ratio can be changed by the SSM in parallel to the requirements of a specific project. The affectivity period of the offset agreement should be equal to the affectivity period of the procurement agreement. The offset agreement can be extended two more years if the SSM deems it to be necessary.

The contractor should get the pre-approval of the SSM before committing to IP/O transactions. The contractors must fill out an "industrial participation/offset commitment table, which includes the IP/O commitments to be realized during a given period of the program. Any IP/O commitments that are not realized within the pre-determined program period are subject to escalation at a constant rate, which will be added to the IP/O commitments of the following period.

The multipliers for defense exports range from 1% to 4%. The exports realized by SMEs are granted an additional multiplier. In a similar manner, 1 is added to the multiplier for those products that are exported for the first time or are designed and developed in Turkey. The multipliers for technology transfer and investment vary from 1% to 3%. The highest multiplier that can be granted is 5.

An irrevocable letter of guarantee is taken from the contractor, which amounts to 6% of the contract value. RFP responses must include a separate binder section for offset proposals, set up according to the criteria stated in the RFP. Bidders shall fill out the commitment table by indicating the realization of offset commitments for each program period.

Commissions

A competent agent is essential in dealing with government and/or military tenders in view of complicated bureaucratic procedures and language barriers. This is true especially during the preliminary stages. Sections 116 to 143 of the Turkish Commercial Code (Law No. 6762, dated June 29, 1956) govern the position of agents in Turkey. However, agency agreements are private contracts between two parties and their stipulation varies according to mutual consent. There are no fixed commissions rates, but the agent must receive the commission within six months after the principal exporting firm receives payment.

C. TRADE SHOWS

IDEF 2009

The 9th International Defense Industry Fair (IDEF '09) will take place in Istanbul on April 27-30, 2008. Organized under the auspices of the Ministry of National Defense, IDEF is the premier defense exhibition in Turkey and the region. Kallman Worldwide Inc. is organizing a U.S. Pavilion for IDEF`09 and is recruiting U.S. exhibitors. (http://www.kallman.com)

IDEF`07 hosted about 40,000 visitors, 494 exhibitors and 264 delegations from 47 countries. 10 countries were represented at the Defense Minister level and Chiefs of General Staff from 4 countries also attended the show. In addition, during the course of IDEF '07, 13 contracts were signed among the SSM, the Turkish Armed Forces and private sector companies.

For more information about IDEF '07 please visit http://www.idef07.com/

For More Information

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